

**AUDITED FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTAL INFORMATION  
AND SUPPLEMENTAL REPORT**

**COMMUNITY MENTAL HEALTH AUTHORITY  
WAKEFIELD, MICHIGAN**

**September 30, 2005**

MAR 21 2006

Michigan Department of Treasury  
496 (2-04)

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Community Mental Health Authority</b>		LOCAL AUDIT & FINANCE DIV. County <b>Gogebic</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>1/25/06</b>	Date Accountant Report Submitted to State: <b>3/16/06</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Joki, Makela &amp; Pollack, PLLC</b>			
Street Address <b>301 N. Suffolk Street</b>		City <b>Ironwood</b>	State <b>MI</b>
Accountant Signature <i>Anthony R. Pollack CPA</i>		ZIP <b>49938</b>	Date <b>3/16/06</b>

## CONTENTS

Audited Financial Statements:	
Independent Auditor's Report .....	Page 3
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet – Governmental Fund .....	14
Reconciliation of the Governmental Fund Balance Sheet with the Statement of Net Assets .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with the Statement of Activities .....	17
Notes to Financial Statements .....	19
Required Supplemental Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance (Budgetary Basis) and Comparison with Budget .....	33
Supplemental Report:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	A-1

**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS

TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Community Mental Health Authority  
Wakefield, Michigan

We have audited the accompanying basic financial statements of Community Mental Health Authority, a component unit of Gogebic County, Michigan and its discretely presented component unit as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Community Mental Health Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Mental Health Authority and its discretely presented component unit as of September 30, 2005, and the results of its operations and changes in its fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the financial statements, during the year ended September 30, 2005, Community Mental Health Authority changed from an unacceptable method of reporting compensated absences in the governmental fund to an acceptable method. The change in accounting method is accounted for as a correction of an error and the fund balance at October 1, 2004 has been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2006, on our consideration of Community Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and page 33, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Joki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
January 25, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2005

---

#### **Management's Discussion and Analysis**

This section of the Community Mental Health Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended September 30, 2005. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending September 30, 2005.

#### **Government-wide Financial Statements**

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Authority as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Authority's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Authority that include all services performed by the Authority. These activities are funded primarily by federal and state monies.

The statement of net assets shows the Authority's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the Authority. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Authority; the greater the net asset figure, the healthier the financial position of the Authority generally is. It helps management determine if the Authority will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It generally shows the operating results for a given year of the Authority. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Authority.

#### **Fund Financial Statements**

The Authority's fund financial statements show detail of funds that are determined to be significant, called major funds. The Authority has only one fund. That fund is a Governmental Special Revenue Fund, which is a major fund. The Authority has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Authority reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements (Continued)

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Authority's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

### Government-wide Financial Statements – Condensed Financial Information (Primary Government Only)

#### Statement of Net Assets

The following is a September 30, 2005 and 2004, condensed statement of net assets with a detailed analysis below.

		<u>Governmental Activities</u>	
		<u>September 30,</u>	
		<u>2005</u>	<u>2004</u>
ASSETS			
Current Assets:			
Cash	\$	23,523	\$ 419,571
Accounts receivable		199,543	169,910
Other current assets		<u>290,343</u>	<u>268,944</u>
Total Current Assets	\$	513,409	\$ 858,425
Noncurrent Assets:			
Restricted cash	\$	281,350	\$ 282,025
Capital assets, net of accumulated depreciation		<u>2,190,425</u>	<u>2,287,814</u>
Total Noncurrent Assets	\$	<u>2,471,775</u>	\$ <u>2,569,839</u>
Total Assets	\$	<u>2,985,184</u>	\$ <u>3,428,264</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Government-wide Financial Statements – Condensed Financial Information (Primary Government Only) (Continued)

### Statement of Net Assets (Continued)

	<u>Governmental Activities</u>	
	<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 244,375	\$ 506,604
Accrued payroll and related fringe benefits	73,963	141,040
Other current liabilities	<u>208,217</u>	<u>216,212</u>
Total Current Liabilities	\$ 526,555	\$ 863,856
Long-term liabilities, net of current portion	<u>1,682,806</u>	<u>1,838,818</u>
Total Liabilities	<u>\$ 2,209,361</u>	<u>\$ 2,702,674</u>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	\$ 603,383	\$ 610,576
Restricted for employee benefits	30,808	7,614
Unrestricted	<u>141,632</u>	<u>107,400</u>
Total Net Assets	<u>\$ 775,823</u>	<u>\$ 725,590</u>

The Authority's net assets are \$775,823 at September 30, 2005. Capital assets, net of related debt are \$603,383. This figure is derived by taking the original costs of the Authority's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

Restricted cash of \$281,350 as of September 30, 2005, is restricted to pay for compensated absences.

The unrestricted net assets are \$141,632 as of September 30, 2005. This is the net accumulated results of the current and past years' operations. The nature of the Authority's operations is based on state aid and Medicaid funds received to fund various mental health related programs. The balance in the unrestricted net assets shows that the Authority has an ample amount of assets to fund liabilities at September 30, 2005.



# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Statement of Activities

The results of operations for the Authority as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal years ended September 30, 2005 and 2004.

		<u>Governmental Activities</u>	
		<u>Year ended September 30,</u>	
		<u>2005</u>	<u>2004</u>
Revenue:			
Program Revenues:			
Charges for services	\$	472,609	\$ 491,809
Operating grants and contributions		79,142	72,436
General Revenues:			
State aid and medicaid		5,224,422	5,370,836
Other		<u>188,380</u>	<u>137,285</u>
	Total Revenue	\$ 5,964,553	\$ 6,072,366
Program expenses -			
Health and welfare		5,914,320	6,144,464
Special item - loss on disposal of assets		<u>                    </u>	<u>255</u>
	Increase (Decrease) in Net Assets	<u>\$ 50,233</u>	<u>\$ (71,843)</u>

The Authority had an overall increase in net assets of \$50,233 for the year ended September 30, 2005.

The Authority's total revenues were \$5,964,533. Of this amount, \$4,392,954, or 74%, were from federal Medicaid funds, \$831,468, or 14%, were state grants and \$472,609, or 8%, were from charges for services. The balance was primarily a transfer from Gogebic County and interest and investment earnings.

The Authority's total cost to fund all governmental activities was \$5,914,320. A majority of these costs were funded by other governmental agencies. This shows the Authority has reliance on the federal and state government to provide future funding for their programs and administrative costs.

### **Governmental Fund Budgetary Items**

During the year, the Authority revised its original budget two times to account for the changing environment of funding sources. A schedule showing the Authority's original budget, final budget and the actual results are included as required supplementary information in the financial section of the audit report.

The original budget was amended throughout the year to project the Authority's financial position as of September 30, 2005. The budgeted revenues were amended in the following areas: an increase in county appropriations due from Gogebic County based on services rendered to residents of Gogebic County, reduction in Human Services Coordinating Board (HSCB) funds transferred to the HSCB board for operations, amendments in the Adult Benefit Waiver (ABW) revenue to properly record ABW and local revenue and to amend the Department of Community Health revenue to the most recent authorization from the State. The budgeted expenditures were amended to reflect employee benefit and program changes to include: reinstatement of the employee longevity pay, increase in employee contribution to health insurance costs, reduction in the lieu of health insurance benefit to 25%, reduction in HSCB expenses related to the transfer of the above funds to their board, increase in mentally ill children community inpatient costs, reallocation of expenses to programs to reflect staffing changes and the distribution of Medicaid expenses to each population served by our agency.

The actual results were comparable to the final budget in all areas except for the charges for services, which was less than the amount budgeted. This variance is reported in Note C to the financial statements and in the Supplemental Report section of the audit report. The variance for the charges for services was due to the estimation of Medicaid and insurance revenue in the final budget for the fiscal year. Both budgeted revenues are based upon the estimation of services to be provided to consumers with either Medicaid eligibility or those with a billable third party insurance which is dependent upon the need of the consumers in our county.

### **Capital Assets**

At September 30, 2005, the Authority had \$2,190,425 invested in capital assets. This amount decreased during the past fiscal year by \$97,389, consisting of additions totaling \$35,100 and depreciation charges of \$132,489. Capital asset additions consisted mainly of a tractor and computer equipment and accessories.

### **Debt**

The Authority had \$1,945,876 of long-term liabilities at September 30, 2005. This amount consists of \$1,635,000 of a capital lease payable, \$60,334 of notes payable to bank and \$250,542 of accrued paid time off benefits payable to employees. During the year ended September 30, 2005, the Authority obtained bank financing for the purchase of a tractor. The capital lease payable was restated due to the bonds to finance the building under the original lease being refunded. The refunding will save the Authority \$170,390 with an economic gain of \$145,400.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

### **Future Considerations**

The Authority over expended in General Fund dollars received from the State for the past two years through the year end cost settlement filed with the Department of Community Mental Health. The Authority eliminated this over expenditure for fiscal year 2004-2005 ending the year with net revenue in all three funding areas (General Fund (state), Medicaid and Local funds) to show an overall net revenue on the audited financial statements. Additional funds received during fiscal year 2004-2005 aided in this net revenue. All of these additional funds will not be available in the next fiscal year, 2005-2006. The Authority will continue to operate through funding and reporting changes derived from the state and regional level. In the upcoming year, the Authority will be analyzing staffing plans and pre-plan for various retirements throughout the agency. The Authority will be implementing new accounting software in coordination with two other boards within the region. The Authority will participate in discussions for a regional electronic medical records system. The Authority will need to work closely with the region and its own management team to maintain a well balanced budget trying to continue a net revenue in all three funding sources for fiscal year 2005-2006.

### **Contacting the Authority**

If you have any questions about this report or need additional information, contact the Authority offices at Community Mental Health Authority, 103 W. U.S. 2, Wakefield, MI 49968; telephone number (906) 229-6100.

BASIC  
FINANCIAL  
STATEMENTS

STATEMENT OF NET ASSETS  
COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2005

	Primary Government	Component Unit
ASSETS		
CURRENT ASSETS		
Cash	\$ 23,523	\$ 186,213
Accounts receivable:		
State of Michigan	68,594	
Patients, less allowance of \$2,500	51,835	
Other	79,114	
Prepaid expenses	<u>290,343</u>	
TOTAL CURRENT ASSETS	\$ 513,409	\$ 186,213
NONCURRENT ASSETS		
Restricted cash	\$ 281,350	
Unamortized bond issuance costs		\$ 66,030
Capital lease receivable		1,500,000
Unamortized deferred amount on capital lease restatement		(108,292)
Capital assets	3,460,496	
Accumulated depreciation	<u>(1,270,071)</u>	
TOTAL NONCURRENT ASSETS	\$ 2,471,775	\$ 1,457,738
TOTAL ASSETS	<u>\$ 2,985,184</u>	<u>\$ 1,643,951</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable:		
State of Michigan	\$ 26,919	
Other	217,456	
Accrued payroll and related fringe benefits	73,963	
Interest payable	40,459	\$ 40,459
Deferred revenue	12,980	
Current portion of long-term liabilities	<u>154,778</u>	<u>135,000</u>
TOTAL CURRENT LIABILITIES	\$ 526,555	\$ 175,459
LONG-TERM LIABILITIES		
Compensated absences	\$ 250,542	
Capital lease/revenue bonds payable	1,635,000	\$ 1,635,000
Unamortized bond discount		(6,762)
Unamortized deferred amount on bond refunding		(28,627)
Unamortized deferred amount on capital lease restatement	(108,292)	
Note payable to bank	60,334	
Less current portion	<u>(154,778)</u>	<u>(135,000)</u>
TOTAL LONG-TERM LIABILITIES	\$ 1,682,806	\$ 1,464,611
TOTAL LIABILITIES	<u>\$ 2,209,361</u>	<u>\$ 1,640,070</u>
NET ASSETS		
Investment in capital assets, net of related debt	\$ 603,383	
Restricted for employee benefits net of related liabilities	30,808	
Restricted for debt service		\$ 3,881
Unrestricted	<u>141,632</u>	
TOTAL NET ASSETS	<u>\$ 775,823</u>	<u>\$ 3,881</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES  
COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2005

	Program Revenues		Net (Expense) and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
<b>PRIMARY GOVERNMENT</b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
Current:				
Health and welfare	\$ 5,806,197	\$ 79,142	\$ (5,254,446)	\$ 0
Interest on long-term debt	<u>108,123</u>		<u>(108,123)</u>	
Total Primary Government	\$ 5,914,320	\$ 79,142	\$ (5,362,569)	\$ 0
<b>COMPONENT UNIT -</b>				
MHF Sub G Human Services, Inc. - interest expense	\$ 98,703	\$	0	\$ (98,703)
<b>GENERAL REVENUES</b>				
State aid not restricted for specific purpose		\$	831,468	
Medicaid not restricted for specific purpose			4,392,954	
Transfer from Gogebic County			139,250	
Interest and investment earnings			18,845	\$ 102,584
Other			<u>30,285</u>	
TOTAL GENERAL REVENUES			\$ 5,412,802	\$ 102,584
<b>CHANGE IN NET ASSETS FOR THE YEAR</b>				
NET ASSETS - OCTOBER 1, 2004			\$	50,233
NET ASSETS - SEPTEMBER 30, 2005			<u>725,590</u>	<u>3,881</u>
			\$ 775,823	\$ 3,881

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET - GOVERNMENTAL FUND  
COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2005

---

ASSETS

Cash	\$ 23,523
Restricted cash	281,350
Accounts receivable:	
State of Michigan	68,594
Patients, less allowance of \$2,500	51,835
Other	79,114
Prepaid expenses	<u>290,343</u>
	<u>\$ 794,759</u>

LIABILITIES AND AUTHORITY EQUITY

Accounts payable:	
State of Michigan	\$ 26,919
Other	217,456
Accrued payroll and related fringe benefits	73,963
Deferred revenue	<u>12,980</u>

Total Liabilities   \$ 331,318

Authority equity -		
Fund balance:		
Reserved	\$ 250,542	
Unreserved	<u>212,899</u>	<u>463,441</u>
		<u>\$ 794,759</u>

The accompanying notes are an integral part of the  
financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2005

---

Total fund balance of governmental fund		\$ 463,441
---	--	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Additions:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of the capital assets	\$ 3,460,496	
Accumulated depreciation	<u>(1,270,071)</u>	2,190,425

Unamortized deferred amount on capital lease restatement is not a financial resource and therefore is not reported as an asset in the governmental fund.		108,292
--	--	---------

Reductions:

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental fund.

Compensated absences	\$ (250,542)	
Capital lease payable	(1,635,000)	
Note payable to bank	<u>(60,334)</u>	(1,945,876)

Accrued interest payable is not included as a liability in governmental activities		<u>(40,459)</u>
--	--	-----------------

Total net assets of governmental activities		<u>\$ 775,823</u>
---	--	-------------------

The accompanying notes are an integral part of the financial statements.



STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2005

Revenues:

Federal grants	\$ 63,773	
State grants	846,837	
Charges for services	4,865,563	
Other	<u>49,128</u>	
		\$ 5,825,301

Expenditures:

Current expenditures -

Health and welfare:

Board administration	\$ 1,136,934	
Prevention grant	86,841	
Mentally ill adults	1,225,834	
Developmentally disabled	2,803,891	
Mentally ill children	<u>444,075</u>	
	\$ 5,697,575	

Capital outlay	35,100	
----------------	--------	--

Debt service:

Principal	\$ 116,489	
Interest	<u>123,076</u>	
	\$ 239,565	5,972,240

Deficiency of Revenues Over Expenditures \$ (146,939)

Other Financing Sources:

Transfer from Gogebic County	\$ 139,250	
Proceeds from borrowing	<u>19,585</u>	158,835

Excess of Revenues and Other  
Financing Sources Over Expenditures \$ 11,896

Fund balance at October 1, 2004, as previously stated	\$ 177,134	
Adjustment to recognize cumulative effect of correction of error in reporting method		<u>274,411</u>

Fund balance at October 1, 2004, as restated	\$ 451,545	
--	------------	--

FUND BALANCE AT SEPTEMBER 30, 2005 \$ 463,441

The accompanying notes are an integral part of the  
financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2005

---

Total net change in fund balance - governmental fund	\$	11,896
--	----	--------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlay	\$	35,100	
Depreciation expense		<u>(132,489)</u>	(97,389)

In the statement of activities, only the amortization of the deferred amount on capital lease restatement is reported.	(6,708)
--	---------

Bond and loan proceeds are an other financing source increasing financial resources, but they increase long-term liabilities in the statement of net assets and do not affect the statement of activities.	(19,585)
--	----------

Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	116,489
--	---------

Interest on long-term debt in the statement of activities is recorded as the interest is incurred. In the governmental funds, interest is recorded as an expenditure in the funds when it is paid. The additional interest recorded in the change in the governmental fund balance is due to the reduction in accrued interest from the beginning of the fiscal year to the end of the fiscal year.	21,661
---	--------

In the statement of activities, operating expenses for compensated absences is measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was more than the amount earned by \$23,869.	<u>23,869</u>
---	---------------

Change in net assets of governmental activities	\$	<u>50,233</u>
---	----	---------------

The accompanying notes are an integral part of the financial statements.

NOTES TO  
FINANCIAL  
STATEMENTS

NOTES TO FINANCIAL STATEMENTS  
COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2005

---

NOTE A - REPORTING ENTITY

Community Mental Health Authority began as the Gogebic County Community Mental Health Board, which was organized by Gogebic County to provide mental health services to Gogebic County residents under State of Michigan Public Act 258 of 1974, as amended by Public Act 290 of 1995. On April 24, 2002, under the authority of the same Public Acts the Gogebic County Board of Commissioners duly adopted various resolutions changing the Board's status to that of an Authority and the name to Community Mental Health Authority (the Authority). The resolutions were filed with the State of Michigan and became effective on April 29, 2002.

The Authority operates under the direction of an administrative board consisting of twelve members appointed by the Gogebic County Board of Commissioners.

The Authority is, under the requirements of GASB Statement Number 14 for financial-reporting purposes, considered a component unit of Gogebic County, Michigan due to the Gogebic County Board of Commissioners appointing the Authority's Administrative Board, the Authority continuing to be a part of Gogebic County, Michigan's retirement plan and upon dissolution, some of the Authority's assets will be transferred to Gogebic County, Michigan.

Also, under the requirements of GASB Statement Number 14 for financial reporting purposes, the MHF Sub G Human Services, Inc. (MHF Sub G), a nonprofit corporation, is considered a component unit of the Authority and is discretely presented in the financial statements. MHF Sub G was formed for the sole purpose of issuing bonds and constructing buildings, which are leased to the Authority under a capital lease. MHF Sub G operates under the direction of a Board appointed by the Authority's Board and made up of Authority personnel. MHF Sub G's only asset is the amount due from the Authority for the capital lease, which is under the same terms as the bonds payable by MHF Sub G.

These financial statements present only Community Mental Health Authority and its component unit.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The following is a summary of the significant accounting policies:

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Presentation

##### Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information for all of the activities of the Authority. The activities of the Authority are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Authority's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Authority has one function, health and welfare, and all of its program revenues are generated from charges for services and operating grants that are restricted for certain purposes.

##### Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Authority has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Accounts Receivable - Patients

The Authority grants credit to individuals for various types of mental health services performed. A vast majority of the patient accounts receivable consist of amounts due from non-Medicaid third party payors and individuals. An allowance for uncollectible outpatient accounts (individuals), based on past experience, has been recorded in the financial statements. The Authority is under a capitated system where the Medicaid funds are paid monthly based on a formula using Medicaid rates and past experience. These funds are passed through Northcare Network, an affiliation of Mental Health Authorities in the Upper Peninsula of Michigan. Northcare Network is a part of Pathways Behavioral Health.

#### Accounts Payable

The amount due the State of Michigan consists principally of amounts due to the Department of Community Health for amounts due for inpatient care and group home leases. Other accounts payable consist primarily of amounts of unspent Medicaid funds due back to Pathways Behavioral Health.

#### Capital Assets and Depreciation

Capital assets include building improvements, furniture and fixtures, equipment and vehicles and are reported in the Government-wide financial statements. Capital assets are defined by the Authority as assets with an acquisition cost of more than \$5,000 with an estimated useful life in excess of four years. Assets meeting this criteria are recorded at historical cost. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of each program based on an allocation process.

The capital assets are depreciated using the straight-line method with a full-month of depreciation taken for assets purchased after the fifteenth of each month and no depreciation taken for those assets purchased prior to or on the fifteenth of each month over the following useful lives:

Buildings	40 years
Furniture, fixtures and other equipment	5-10 years
Vehicles	4 years

#### Investment in Capital Assets, Net of Related Debt

This is a portion of the net assets of the Authority that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

#### Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

#### Fund Balance

In the governmental fund-based financial statements, the fund balance represents the amount available for budgeting future operations. The reserved fund balance represents the tentative and required plans for future use of financial resources.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Budgets

The Authority signs contracts with Pathways Behavioral Health and the Michigan Department of Community Health bi-annually with amendments occurring as needed. Included in the contracts are spending plans for the various programs, which are under constant revision throughout the year. The spending plans basically cover the state and locally funded programs and, after approval by both entities, are adopted by the Authority as its budget on the functional level. As a result of this, the budgetary basis differs from that used to present the financial statements in conformity with generally accepted accounting principles (GAAP). The plans and budget are monitored, amended at various times during the year and lapse at year end.

#### Correction of Accounting Error

Effective October 1, 2004, Community Mental Health Authority changed its method of reporting for compensated absences from an unacceptable method to an acceptable method of reporting. The cumulative effect of the change in reporting increased the October 1, 2004 governmental fund balance by \$274,411.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE C - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Public Act 275 of 1980 Disclosure

There was not an accumulated fund balance deficit as of September 30, 2005.

### Public Act 621 of 1978 Disclosure

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a local unit must amend its budget if it becomes apparent that the local unit's actual revenues will deviate from those budgeted, or if the local unit's expenditures will exceed the amounts appropriated. During the year ended September 30, 2005, the Authority monitored and amended its budget and was in substantial compliance with the Act except for the following:

	<u>Budget</u>	Actual (Budgetary Basis)	Unfavorable Variance
Revenues - Charges for services	\$ 5,044,529	\$ 4,877,467	\$ 167,062

### Budgetary - GAAP Reporting Reconciliation

The Statement of Revenues, Expenditures and Changes in Fund Balance (Budgetary Basis) and Comparison with Budget presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, perspective and entity differences in (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended September 30, 2005, is presented below:

	<u>Special Revenue</u>
Excess of revenues and other financing source over expenditures (budgetary basis)	\$ 9,784
Adjustments to revenues and expenditures:	
To record proceeds from borrowing	19,585
For capital outlay	(35,100)
To remove depreciation	157,985
For debt service principal payments	(116,489)
For compensated absence payments	(23,869)
Excess of revenues and other financing source over expenditures (GAAP basis)	<u>\$ 11,896</u>



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE D - CASH

Deposits were made in accordance with State of Michigan statutes and under authorization of the Administrative Board. State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

The Authority uses accounts payable and payroll checking accounts, which are on an imprest system with bank balances reconciling to zero along with various other checking and savings accounts all in the same local bank. At September 30, 2005, cash on deposit in the financial institution totaled \$520,369 of which \$200,000 was covered by depository insurance and \$320,369 exceeded insurance coverage. The Authority places its deposits with what it believes to be a high quality financial institution. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

At September 30, 2005, the component unit had cash on deposit of \$186,213 of which \$100,000 was covered by depository insurance and \$86,213 exceeded insurance coverage.

Restricted cash includes \$281,350 restricted for payment of compensated absences.

### NOTE E - COMPENSATED ABSENCES

The Authority has a written policy providing for payment of sick, personal and vacation leave. All compensated absences are combined as Paid Time Off with hours credited at a rate of 6.62 hours for every 80 hours worked for residential employees and 7.54 for non-residential employees. Additional Paid Time Off of 16 to 64 hours per year is accrued for employees with continuous years of service ranging from 5 to over 20 years. The maximum accrual for unused Paid Time Off is 640 hours. This is also the limit of hours paid upon termination. Employees have the option of selling unused Paid Time Off back to the Authority annually under certain eligibility criteria. Each employee's accumulated Paid Time Off is computed by applying current rates of pay times total accumulated hours, limited by the above policies. The total, \$250,542 at September 30, 2005, is reported in the financial statements as a liability. Payment in lieu of accrued sick leave for those who did not sell or convert their hours to Paid Time Off is allowed only for employees who separate from employment for retirement purposes and is paid at a rate of fifty per cent of unused sick leave, which cannot exceed 90 workdays. Paid Time Off and sick leave utilized during the year are recorded as a current expenditure.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE F - RETIREMENT SYSTEM

The Authority participates in Gogebic County's single-employer defined benefit pension plan that covers substantially all of its employees. County ordinance assigns the authority to establish and amend the benefit provisions of the plan to the County Board of Commissioners. The plan is included in the audited financial statements of County of Gogebic, Michigan, as of and for the year ended December 31, 2004, with additional information disclosed in Note Q to the financial statements.

Essentially all employees are eligible to participate in the System. All employees who retire at or after the time when the sum of age plus years of credited service is equal to 70, or age 60 with 8 years of credited service, are entitled to annual retirement benefit, payable monthly for life, equal to total service years times 2.5% of final average compensation. Final average compensation is the employee's highest three years out of the last ten.

Benefits fully vest upon reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. The Authority makes all required payments for its members.

On December 2, 2003, the employees of the Authority voted to opt out of social security and elected an alternative to the social security benefit package. The alternative to the social security benefit package included enhancements to the current defined benefit pension plan through Gogebic County and the addition of a 401(a) money purchase plan. The enhancements to the pension plan included an increase in multiplier to 2.5% for both non-residential and residential employees, change in the final average compensation to the best three out of the last ten years, addition of the Deferred Retirement Option Plan (DROP), the cost of the 70 and out plan, and other options available at the time of retirement. In 2003, the contribution into the pension fund for the employees of the Authority was 8.96% and the contribution into social security was 12.4% to total 21.36%. With the enhancements of the alternative to social security plan, the contributions into the pension plan for employees are 20.2%. This contribution is funded by a 6.2% employee contribution and a 14% employer contribution. The employer also contributes 2.64% for non-residential employees and 1.45% for residential employees into the 401(a) money purchase plan. This difference in contribution into the 401(a) plan is due to the difference in cost to increase the pension multiplier to 2.5% as non-residential employees were previously at 2.0% while residential employees were at 1.6%.

Employer retirement contributions for the years ended September 30, 2005, 2004 and 2003, were \$286,207, \$394,379 and \$268,019, respectively, in accordance with actuarially determined contribution requirements.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE G - OPERATING LEASES

During the year the Authority paid \$26,777 for buildings leased for various programs and a postage meter under operating leases. Future minimum operating lease rental payments are \$25,359 for each of the four years ending September 30, 2009 and \$936 for the year ending September 30, 2010.

The Authority's clinic and administrative operations building and a group home are leased under a capital lease described in Note J.

## NOTE H - PREPAID EXPENSES

Prepaid expenses at September 30, 2005, consist of the following:

Capital lease payment	\$ 175,454
Health insurance	80,324
Various	<u>34,565</u>
	<u>\$ 290,343</u>

## NOTE I - CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2005, were as follows:

	Balance at October 1, 2004	Additions	Deductions	Balance at September 30, 2005
Land	\$ 4,128			\$ 4,128
Buildings	2,469,897			2,469,897
Equipment	<u>965,236</u>	<u>\$ 35,100</u>	<u>\$ 13,865</u>	<u>986,471</u>
	\$ 3,439,261	\$ 35,100	\$ 13,865	\$ 3,460,496
Accumulated depreciation:				
Buildings	\$ 479,122	\$ 55,454		\$ 534,576
Equipment	<u>672,325</u>	<u>77,035</u>	<u>\$ 13,865</u>	<u>735,495</u>
	<u>\$ 1,151,447</u>	<u>\$ 132,489</u>	<u>\$ 13,865</u>	<u>\$ 1,270,071</u>
	<u>\$ 2,287,814</u>	<u>\$ (97,389)</u>	<u>\$ 0</u>	<u>\$ 2,190,425</u>

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE J - GENERAL LONG-TERM DEBT

Changes in long-term debt are summarized below:

	Balance at October 1, <u>2004</u>	<u>Additions</u>	<u>Restatement</u>	<u>Deductions</u>	Balance at September 30, <u>2005</u>	Amount Due Within <u>One Year</u>
Compensated absences (Note E)	\$ 274,411			\$ 23,869	\$ 250,542	\$ 2,991
Capital lease payable	1,620,000		\$ 115,000	100,000	1,635,000	135,000
Note payable to bank	<u>57,238</u>	<u>\$ 19,585</u>	<u>          </u>	<u>16,489</u>	<u>60,334</u>	<u>16,787</u>
	<u>\$1,951,649</u>	<u>\$ 19,585</u>	<u>\$ 115,000</u>	<u>\$ 140,358</u>	<u>\$ 1,945,876</u>	<u>\$ 154,778</u>

The aggregate amounts of long-term debt principal and interest maturities (excluding compensated absences) for the five years ending September 30, 2010, and in five-year increments after until maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 151,787	\$ 74,090	\$ 225,877
2007	164,105	61,625	225,730
2008	168,497	54,896	223,393
2009	159,189	48,263	207,452
2010	166,756	41,746	208,502
2011 - 2015	885,000	101,641	986,641

### Capital Lease Payable

During February 1995 the Authority entered into a 20-year lease with its component unit to lease a clinic and administrative operations building and a group home. The payments are to be sufficient to provide for the principal and interest due on the bonds issued by its component unit to construct the buildings. On February 28, 2005, this lease was updated as the component unit issued 2005 Revenue Refunding Bonds of \$1,635,000 and used the proceeds to refund the original bonds of \$1,520,000. The interest rates vary from 4% to 4.625%. (Further described in Note N.) At the end of the lease, the ownership of the buildings is to be turned over to Gogebic County, Michigan, with no financial obligation to the County and for the County to manage at its discretion. The principal value of the bonds has been capitalized and recorded as a capital asset. The required lease payments are sufficient to cover its component unit's principal and interest payment due on October 1 and April 1 of each year. The present value of the net minimum lease payments is equal to the total principal due on the bonds of the component unit. A summary of the annual payments follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J - GENERAL LONG-TERM DEBT (CONTINUED)

Capital Lease Payable (Continued)

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 135,000	\$ 71,950	\$ 206,950
2007	145,000	60,081	205,081
2008	150,000	54,181	204,181
2009	155,000	48,081	203,081
2010	165,000	41,681	206,681
2011	165,000	35,081	200,081
2012	170,000	28,275	198,275
2013	175,000	20,941	195,941
2014	185,000	12,950	197,950
2015	<u>190,000</u>	<u>4,394</u>	<u>194,394</u>
	<u>\$ 1,635,000</u>	<u>\$ 377,615</u>	<u>\$ 2,012,615</u>

Notes Payable to Bank

The notes payable to bank consist of the following notes payable to First National Bank of Wakefield, Michigan:

A note payable dated August 23, 2004, the proceeds of which were used to buy four automobiles. The note is collateralized by a savings account. The note bears an interest rate of 4.4% and requires a monthly payment of \$1,356, including interest. A summary of annual payments follows:

<u>Year ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 13,422	\$ 1,498	\$ 14,920
2007	15,272	1,005	16,277
2008	<u>14,491</u>	<u>349</u>	<u>14,840</u>
	<u>\$ 43,185</u>	<u>\$ 2,852</u>	<u>\$ 46,037</u>

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE J - GENERAL LONG-TERM DEBT (CONTINUED)

### Notes Payable to Bank (Continued)

A note payable dated February 25, 2005, the proceeds of which were used to buy a Kubota tractor. The note is collateralized by the tractor. The note bears an interest rate of 4.4% and requires a monthly payment of \$364, including interest. A summary of annual payments follows:

<u>Year ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,365	\$ 642	\$ 4,007
2007	3,833	539	4,372
2008	4,006	366	4,372
2009	4,189	182	4,371
2010	<u>1,756</u>	<u>65</u>	<u>1,821</u>
	<u>\$ 17,149</u>	<u>\$ 1,794</u>	<u>\$ 18,943</u>

## NOTE K - DEFERRED COMPENSATION FUND

In addition to the normal retirement plan discussed in Note F above, the Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Investments are managed by the plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option is made by the participants.

It has been determined that the Authority does not have any fiduciary responsibility regarding this Plan and, accordingly, has not reflected any of its assets or activities in its financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE L - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk by purchasing insurance coverage through Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. MMRMA is created by authority granted by the laws of the State of Michigan to provide risk financing and risk management services to eligible Michigan local governments. MMRMA is a separate legal and administrative entity as permitted by Michigan laws. The Authority is eligible to be a member of MMRMA.

The Authority is responsible to pay all costs, including damages, indemnification and allocated loss adjustment expenses for each occurrence that is within the member's self insurance retention (SIR). Authority SIR and deductibles are as follows:

	<u>Coverage</u>	<u>Deductible</u>	<u>Self Insured Retention</u>
1.	Liability	None	State Pool Member
2.	Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3.	Property and Crime	\$250/ Occurrence	State Pool Member
4.	Sewage System Overflow	N/A	

Coverage limits vary depending upon the type of claim. Coverage limits can be found in the Coverage Overview Document and are generally up to \$10,000,000 of occurrence-based casualty coverage for each incident and up to \$4,612,259 of occurrence-based property coverage.

Various addendums to the coverage include:

1. Sewage Exclusion
2. Limited Liability Coverage for Terrorism – Modifies the Liability and Motor Vehicle Physical Damage Coverage
3. Limited Property Coverage for Terrorism – Modifies the Property and Crime Coverage

The Authority's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Authority estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The Authority carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE M - DEFERRED REVENUE

Deferred revenue at September 30, 2005, consisted of the following:

Michigan Department of Community Health grant funds	<u>\$ 12,980</u>
--	------------------

### NOTE N - CAPITAL LEASE RESTATEMENT/DEBT REFUNDING

On February 28, 2005, the capital lease was restated to account for the component unit issuing \$1,635,000 of Limited Obligation Revenue Refunding Bonds, Series 2005 (Refunding Bonds) to advance refund \$1,520,000 of Limited Obligation Revenue Bonds, Series 1994 (Original Bonds). The Authority's lease was set up to be sufficient to provide for the principal and interest due on the Original Bonds and is now set up for the Refunding Bonds.

The Original Bonds were set to mature at varying amounts on October 1, 2005 through October 1, 2014 with interest rates ranging from 7% to 7.875% and were subject to an optional redemption after October 1, 2004, but prior to October 1, 2006 at a premium of 2% of par. The Refunding Bonds were issued with a discount of \$7,181, and after issuance costs of \$70,120 and a deferred amount on refunding of \$30,400, the net proceeds were \$1,527,299. The proceeds from the purchase were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. Government securities to provide for the debt payments when the Original Bonds were called on April 1, 2005. The discount, issuance costs and deferred amount on refunding are being amortized over the term of the Refunding Bonds and are accounted for in the financial statements of the component unit.

The effect of the capital lease being restated to reflect the principal balance increasing from \$1,520,000 to \$1,635,000 is reported as a deferred amount on capital lease restatement and is being amortized over the remaining term of the lease. The unamortized balance is reported as a deduction against the capital lease receivable in the component unit's financial statements and as a deduction against the capital lease payable in the Authority's financial statements.

As a result of the advance refunding, the Authority and its component unit reduced its total debt by \$170,390, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$145,400.



REQUIRED  
SUPPLEMENTAL  
INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
(BUDGETARY BASIS) AND COMPARISON WITH BUDGET

COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)
Revenues:			
Federal grants	\$ 56,816	\$ 56,816	\$ 63,773
State grants	858,175	856,248	846,837
Charges for services	5,137,459	5,044,529	4,877,467
Other	<u>32,482</u>	<u>32,482</u>	<u>37,223</u>
Total	\$ 6,084,932	\$ 5,990,075	\$ 5,825,300
Expenditures:			
Current expenditure -			
Health and welfare:			
Board administration	\$ 1,052,775	\$ 1,195,585	\$ 1,222,915
Prevention grant	105,233	91,588	89,507
Mentally ill adults	1,517,437	1,298,929	1,271,171
Developmentally disabled	2,921,697	3,015,112	2,908,673
Mentally ill children	564,632	479,439	458,791
Capital outlay	<u>26,800</u>	<u>9,050</u>	<u>3,709</u>
Total	\$ 6,188,574	\$ 6,089,703	\$ 5,954,766
Deficiency of Revenues Over Expenditures	\$ (103,642)	\$ (99,628)	\$ (129,466)
Other Financing Source - transfer from Gogebic County	<u>117,500</u>	<u>117,500</u>	<u>139,250</u>
Excess of Revenues and Other Financing Source Over Expenditures	\$ 13,858	\$ 17,872	\$ 9,784
Budgetary fund balance at October 1, 2004	<u>283,915</u>	<u>283,915</u>	<u>283,915</u>
BUDGETARY FUND BALANCE AT SEPTEMBER 30, 2005	<u>\$ 297,773</u>	<u>\$ 301,787</u>	<u>\$ 293,699</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL  
REPORT

**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS

TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board  
Community Mental Health Authority  
Wakefield, Michigan

We have audited the financial statements of Community Mental Health Authority (Authority), a component unit of Gogebic County and its discretely presented component unit as of and for the year ended September 30, 2005, and have issued our report thereon dated January 25, 2006. The Authority changed from an unacceptable method of reporting compensated absences in the governmental fund to an acceptable method. The change in accounting is accounted for as a correction of an error and the fund balance at October 1, 2004, has been restated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Budget Requirements

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a local unit must amend its budget if it becomes apparent that the local unit's actual revenues will deviate from those budgeted, or if the local unit's expenditures will exceed the

amounts appropriated. During the year ended September 30, 2005, the Authority monitored and amended its budget and was in substantial compliance with the Act except for the following:

	<u>Budget</u>	Actual (Budgetary Basis)	Unfavorable Variance
Revenues - Charges for services	\$ 5,044,529	\$ 4,877,467	\$ 167,062

We recommend that the Authority more closely monitor the budget and make amendments as needed.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management and designated regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Joki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
January 25, 2006